

UTILITIES & TELECOMMUNICATIONS

To better serve you, the Arizona Department of Revenue now offers online assistance and filing of your business taxes. To file your taxes online or to register to use the website go to www.aztaxes.gov.

This publication provides general information about Arizona transaction privilege tax on furnishing utilities and providing intrastate telecommunications services. The Arizona transaction privilege tax is commonly referred to as a sales tax; however, the tax is on the privilege of doing business in Arizona and is not a true sales tax. The transaction privilege tax is imposed on persons engaged in business under the utilities classification by Arizona Revised Statutes (A.R.S.) § 42-5063 and on telecommunications businesses by A.R.S. § 42-5064. For complete details, refer to these statutes and Title 15, Chapter 5 of the Arizona Administrative Code. In case of inconsistency, error or omission in this publication, the language of the Arizona Revised Statutes and the Arizona Administrative Code will prevail.

Who Must Pay

Utilities

If you are in the business of producing and/or furnishing to consumers, electricity, natural gas, artificial gas, or water, you are subject to transaction privilege tax under the utilities classification. If you distribute or sell potable water primarily through a pipeline, you may be required to pay a separate, additional tax as a municipal water delivery system. The statutes governing municipal water delivery systems are found at A.R.S., Title 42, Chapter 5, Article 7.

The utilities classification does not include the following activities:

- sales of utilities to a person for resale.
- sales of gas for motor vehicles.
- sales of used oil fuel to a used oil fuel burner who has a Department of Environmental Quality permit.
- sales of electricity to out-of-state consumers if the electricity is delivered outside Arizona. For more details on out-of-state sales, see Title 15, Chapter 5, Article 21 of the Arizona Administrative Code.
- sales of bottled gases and bottled water.

Telecommunications

If you are in the business of providing intrastate telecommunications services, you are subject to transaction privilege tax under the telecommunications classification. The telecommunications classification does not include sales of:

- intrastate telecommunications services by a cable television system that meets certain Arizona statutory requirements.
- intrastate telecommunications services by a microwave television transmission system that transmits programming to multiple subscribers if operated according to Federal regulations.
- internet access services.

What is Taxable

The tax base for both the utilities and telecommunications classifications is the gross proceeds of sales or gross income derived from the business. The utilities tax base includes electricity, gas and water produced within or outside Arizona delivered to a point within Arizona. For telecommunications, the tax base includes any income from tolls, subscriptions or services on the subscriber's behalf, or the publication of a directory of the names of subscribers. For information about coin-operated telephones, see *TPR 94-1*. For information about sending and receiving fax messages, see *TPR 99-6*.

What is the Tax Rate on Utilities and Telecommunications and How Do I Pay?

The current combined state and county tax rates for the utilities classification can be found in the *Arizona State, County and City Transaction Privilege and Other Tax Rate Tables* under Business Class Code 004. Income from telecommunications businesses is reported under Business Class Code 005. Most Arizona cities participate in the state collection program, and those taxes are reported and paid on the Transaction Privilege, Use and Severance Tax Return (Form TPT-1). Most of the larger cities license and collect privilege tax independently of the state. If you are unsure whether your city collects its own tax or if the state collects for it, check the *Arizona State, County and City Transaction Privilege and Other Tax Rate Tables*.

NOTE: For ease of reporting, state and county rates are combined on the state's tax rate tables. City tax is reported separately. See Form TPT-1 instructions for details.

Utilities

Transaction Privilege Tax on utilities is paid based on the county where the electricity, gas, and water are delivered.

For businesses that operate a municipal water delivery system (primarily a pipeline) which distributes or sells potable water, there is an additional tax levied at the rate of 0.65% of one cent for each 1,000 gallons of water delivered. For example, the tax on 100,000 gallons of water is 65 cents. The tax on municipal water delivery is reported on Form TPT-1 under Business Class Code 041. For additional information about municipal water delivery systems, see Transaction Privilege Tax Ruling *TPR 93-20*.

Telecommunications

From July 1, 2001 through June 30, 2006, to finance 911 emergency telephone services, an additional excise tax of 37 cents per month is due from each provider for each activated wire and wireless service account.

Additionally, for the purpose of financing telecommunication devices for deaf, severely hearing impaired and severely speech impaired people, a 1.1% excise tax is imposed on the provider's gross proceeds of sales or gross income derived from the business of providing exchange access services.

For details about emergency telephone services and devices for hearing and speech impaired people, see A.R.S. Title 42, Chapter 5, Article 6.

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Factoring Transaction Privilege Tax

When a business “factors” transaction privilege tax, it means the tax is included in the total price rather than shown as a separate charge. If you choose to factor the tax, the tax must be calculated using a factoring formula. There are many different factoring formulas depending on city taxes, county taxes or differences in allowable city tax deductions. See Arizona Transaction Privilege Tax Procedure *TPP-01* for information about factoring.

Deductions from the Tax Base

Utilities Classification Deductions (A.R.S. § 42-5063)

1. Any revenue received by a municipally owned utility from fees charged to persons constructing residential, commercial or industrial developments. And any revenue received by a municipally owned utility from fees charged to persons connecting residential, commercial or industrial developments to a municipal utility system. However, all the above fees must be separated and used only for capital expansion, system enlargement or debt service of the utility system.
2. Any revenue received by a utility system in the form of reimbursement or contribution compensation for property and equipment installed to provide utility access to, on or across a utility consumer's land. This deduction only applies if the property and equipment becomes the property of the utility. The deduction may not exceed the value of the property and equipment. For detailed information on this deduction, see Transaction Privilege Tax Ruling TPR 92-6.
3. Income from sales to qualifying hospitals. The definition of “qualifying hospital” is found at A.R.S. § 42-5001.
4. Income from sales to qualifying health care organizations if the electricity, gas, or water is used only to provide health and medical related educational and charitable services. The definition of “qualifying health care organization” is found at A.R.S. § 42-5001.
5. Income from sales to certain environmental technology manufacturers, producers or processors as they are defined in A.R.S. The utility product (electricity, gas or water) must be used directly in environmental technology manufacturing, producing or processing. (For example, you may deduct the sale of electricity used by a company to manufacture recycled paper.) This deduction is limited to the first fifteen years the equipment is in service.

Telecommunications Classification Deductions (A.R.S. § 42-5064)

1. Income from sales of intrastate telecommunications services to other telecommunications businesses for use in that business.
2. Income from sales of intrastate telecommunications services to a direct broadcast satellite television or data transmission service, as provided by A.R.S. § 42-5064.

3. Income from sales of direct broadcast satellite television services, as provided by A.R.S. § 42-5064.
4. Income from end user common line charges and carrier access charges, as provided by A.R.S. § 42-5064.
5. Income from sales of telecommunications services purchased with a prepaid calling card or a prepaid authorization number for telecommunications services that is taxable under the retail sales classification, A.R.S. § 42-5061.

For Additional Information, call:

Phoenix(602) 255-2060
Toll free from area codes 520 & 928.....(800) 843-7196

For Hearing Impaired - TDD only:

Phoenix(602) 542-4021
Toll free from area codes 520 & 928(800) 397-0256

Or Write to:

Arizona Department of Revenue
Taxpayer Information & Assistance
PO Box 29086
Phoenix AZ 85038-9086

For Related Tax Information:

Internet Address www.revenue.state.az.us
Recorded Tax Information.....(602) 542-1991
Toll free from area codes 520 & 928.....(800) 845-8192
Forms by Mail(602) 542-4260
Forms by Fax(602) 542-3756

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